

Meeting: Shareholder Board
Date: 14th August 2023
Classification: Part 1 and Appendix in Part 2
Key Decision: No
Title of Report: Better Queensway: Scheme Update

Director: Glyn Halksworth, Director of Regeneration & Housing

Report Author: Better Queensway Programme Management Office

Executive Councillor: Councillor David Garston, Cabinet Member for Housing & Planning and Councillor Dan Nelson, Cabinet Member for Economic Growth & Investment

1. Executive Summary

- 1.1** Sanctuary Housing Association has now confirmed its intention and desire to exit Porters Place Southend-on-Sea LLP and the Better Queensway Project. This report presents to the Shareholder Board a recommended way of ensuring a planned, negotiated, and managed exit is achieved that is reasonable in the circumstances.
- 1.2** The report also seeks Shareholder Board's endorsement for Council officers to explore alternative options to progress the regeneration scheme and deliver the transformational ambition for the city.

2. Recommendations

Shareholder Board is requested to:

- 2.1** Note the intentions and desire for Sanctuary Housing Association to procure the exit of its group company Swan BQ Limited from Porters Place Southend-on-Sea LLP and the Better Queensway Project.
- 2.2** Approve the requirement to enter into an appropriate Settlement Agreement between Southend-on-Sea City Council and Swan BQ Limited (and certain relevant group companies).

2.3 Delegate authority to the Director of Regeneration & Housing and Executive Director Finance & Resources to negotiate the final details of the Settlement Agreement in consultation with the Cabinet Members for Housing & Planning and Economic Growth & Investment.

2.4 Endorse that the Director of Regeneration & Housing is required to explore alternative options to progress the regeneration scheme and report back to a later Cabinet meeting.

3. Background

3.1 On 12th February 2019 Cabinet gave authority to enter into a suite of legal agreements to establish a 50/50 joint venture with partner Swan BQ Limited (“Swan BQ”) to deliver the regeneration of the Queensway Estate. Swan BQ is a wholly owned subsidiary of Swan Housing Association (Swan HA).

3.2 The joint venture entity, which is a limited liability partnership, is Porters Place Southend-on-Sea LLP (the “LLP”).

3.3 Between April 2019 and March 2022 significant milestones were achieved by the LLP in paving the way for redevelopment including a hybrid planning consent for circa 1,700 homes, detailed consent and tender for the main highways works alongside an acquisition and decant programme to facilitate vacant possession in line with the phasing programme.

3.4 However, delays began to occur in early 2022 when the Council was informed that a review of the original business plan was required due to unforeseen extraordinary construction cost inflation in the wake of Covid-19 and the war in Ukraine, along with an uncertain housing sales market.

3.5 At around the same time, it became apparent that the Regulator of Social Housing had concerns about Swan HA’s financial resilience and sustainability and was brokering a merger with a larger housing association as a solution.

3.6 On 8th November 2022 Cabinet approved a change of control request from Sanctuary Housing Association (“Sanctuary”) as they prepared for a merger with Swan HA.

3.7 On 8th February 2023 the merger was completed, and Sanctuary began a period of due diligence on the Better Queensway project along with all of Swan HA’s other development projects and commitments.

3.8 Following an extended period of review, during the last couple of months Sanctuary have indicated to the Council that it was unlikely that it could support further Swan HA and Swan BQ involvement in the Better Queensway project.

3.9 Sanctuary has now confirmed its intention to exit and not to continue with the project because it is prioritising investment and commitment to existing homes and communities. Following its comprehensive assessment since February

2023 of all of Swan HA activities, Sanctuary has now decided to only focus on the delivery of those schemes where construction has already started.

4. Proposed Settlement Agreement

4.1 The Council's interests will be best protected through a managed exit that is negotiated and agreed with Sanctuary. A Settlement Agreement is under development which will cover the terms of Sanctuary's withdrawal. The broad principles of the exit have been agreed and have been captured in a heads of terms document. These agreed principles are deemed to be reasonable for the Council given the prevailing circumstances. The details are commercially sensitive and confidential but will be shared under Part 2 of this meeting, together with an update on the status of negotiations.

4.2 A priority outcome for future considerations is that the LLP will continue to exist, and that the Council will become temporarily the 100% owner. This will enable as broad a range of future options as possible to be considered.

5. Reasons for Decisions

5.1 The Shareholder Board is asked to approve the Council entering into a negotiated Settlement Agreement as the most suitable option for the Council to achieve a managed exit of Sanctuary HA from the LLP.

5.2 The Council acknowledges the challenges that Sanctuary faces but is disappointed that it needs to withdraw from the project at this time, particularly given the inevitable delay and uncertainty that will be created for local residents and our ambitions for the regeneration of the local area. It is clearly not sustainable or advisable to try to force a joint venture partner to continue. The Council's priority is to establish clarity on the best way forward for the City, local residents and all stakeholders as soon as possible.

5.3 The Council's legal advisors, Sharpe Pritchard, have advised the Council on its other options and a negotiated settlement is seen as the approach most likely to provide the best outcome for the Council in the circumstances.

5.4 It is proposed that the finalisation of the detailed terms of the Settlement Agreement be delegated to the Director of Regeneration & Housing and Executive Director Finance & Resources, in consultation with Councillors David Garston and Daniel Nelson to ensure a swift conclusion and resolution, ideally before 30th September 2023.

5.5 The Shareholder Board is also asked to support the request to quickly commence the development of potential options to deliver the city's regeneration ambition for this area, without Sanctuary as a partner, in line with the Council's unanimous resolution agreed at the Special Council meeting on 29th June 2023 at which it passed the motion *Delivering Better Queensway*.

6. Other Options

- 6.1** The alternative option to the recommended route would be not to enter into a Settlement agreement. For the reasons set out in this report, taking this option is unlikely to produce a more favourable result for the Council or local residents.
- 6.2** Swan BQ would have other options both in general law and under the existing contract for bringing to an end their involvement, and legal advice is clear that none of these would result in a better result for the Council and would arguably create more risk and a potentially worse outcome in terms of the Council's ambitions for the Better Queensway scheme. A negotiated and managed exit is therefore the preferred option.

7. Future Scheme Development and Delivery Considerations

- 7.1** There are several options for the Council to consider to progress the regeneration scheme without Sanctuary HA or Swan HA involvement. As with the original approved scheme any alternative arrangements will require the securing of funding from external partners and a compelling case for investment is crucial to delivering the ambitious transformation desired.
- 7.2** The Council could consider directly delivering the scheme itself, in its current form, by taking on the developer role and procuring construction contracts for the works or it could choose to procure an alternative partner to continue with the scheme in its current form. The existing LLP could be utilised for this purpose.
- 7.3** In addition, the Council could take the opportunity to review the current scheme and assumptions and promote an alternative scheme for consideration but continuing to place local residents at the heart of the regeneration programme and transformation ambition.
- 7.4** Clearly further detailed work is now required to understand and evaluate all alternative options and implications. This assessment will be completed as quickly as possible, and the intention is to report back to a future meeting of Cabinet on these findings and to recommend a way forward.

8. Financial Implications

- 8.1** The Financial implications are contained within Part 2 of this report.
- 8.2** Although the withdrawal of Sanctuary will undoubtedly result in project delay and potential additional cost, the full extent of their decision is not known at this time and cannot be established until it is clear how much of the existing work that has been developed to date can be used and how much of it will be abortive.

8.3 As part of the detailed options appraisal and exercise officers will be pursuing further support for this scheme from external funding partners including Homes England and the Regulator of Social Housing, given the circumstances and the impact on the city.

8.4 A detailed assessment of the potential future options will be presented to a future Cabinet Meeting.

9. Legal implications

9.1 The legal implications are contained within Part 2 of this report.

10. Policy Context

10.1 There are no specific policy implications for this report, but appropriate consideration will be given during the development of the next steps for the Scheme.

11. Carbon Impact

11.1 There are no specific carbon impacts generated by this report, but appropriate consideration will be given during the development of the next steps for the Scheme.

12. Equalities

12.1 There are no specific equalities implications generated by this report, but appropriate consideration will be given during the development of the next steps for the Scheme.

13. Consultation

13.1 There are no specific consultation implications generated by this report, but appropriate consideration will be given during the development of the next steps for the Scheme.

14. Appendices

14.1 **Appendix 1:** Confidential Settlement Agreement - Outline Terms, Financial and Legal Implications.